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BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

RATE ADJUSTMENT DUE TO EXTRAORDINARY OR EXCEPTIONAL CIRCUMSTANCES	)))	Docket No. R2013-11

MOTION OF ASSOCIATION FOR POSTAL COMMERCE, MPA—THE ASSOCIATION OF MAGAZINE MEDIA, THE AMERICAN CATALOG MAILERS ASSOCIATION, INC., DIRECT MARKETING ASSOCIATION, INC., ALLIANCE OF NONPROFIT MAILERS, ASSOCIATION OF MARKETING SERVICE PROVIDERS, PRINTING INDUSTRIES OF AMERICA, QUAD/GRAPHICS, INC., RR DONNELLEY, AND TIME INC. FOR ISSUANCE OF INFORMATION REQUEST
(October 17, 2013)

Pursuant to 39 C.F.R. § 3001.21(a), the Association for Postal Commerce ("PostCom"), MPA—The Association of Magazine Media ("MPA"), The American Catalog Mailers Association, Inc. ("ACMA"), Direct Marketing Association, Inc. ("DMA"), Association of Marketing Service Providers ("AMSP"), Printing Industries of America ("PIA"), Quad/Graphics, RR Donnelley ("RRD"), and Time Inc. respectfully request that the Presiding Officer issue an Information Request to obtain answers to the questions stated in this motion. *See* 39 C.F.R. § 3007.3(c); Docket No. RM2008-4, Order No. 203 (April 16th, 2009) at 55 (recognizing the appropriateness of having the Commission retain the discretion to propound information requests proposed by third parties in dockets where the schedule is too tight to allow traditional discovery by intervenors).

The questions posed here are essential to fill several major holes in the Postal Service's case-in-chief. These gaps involve, in particular, the support for the Postal

Service's claim that it lost $6.65 billion in contribution in FY 2012 *because of the 2007-2009 recession*. Preliminary analysis of the Postal Service's case indicates that most if not all of these losses were in fact caused by the longer-run trend to electronic diversion, a circumstance that the Commission has held (and the Postal Service has conceded) does not qualify as "extraordinary or exceptional" under 39 U.S.C. § 3622(d)(1)(E). What basis (if any) the Postal Service had for attributing most of the diversion-related losses to the recession is a mystery: Neither the Postal Service nor its economic consultant Thomas Thress has provided any explanation or support for his interpretation of many key variables as recession-related.

In the remainder of this motion, we identify specific gaps in the Postal Service's September 26 filing, and propose questions that seek to fill the gaps. These questions are directed to the Postal Service as an institution, and may be answered by the Postal Service or any individual who is competent to answer the questions on behalf of the Postal Service.

A. WHETHER THE LOSSES CLAIMED BY THE POSTAL SERVICE IN FISCAL YEAR 2012 WERE CAUSED BY THE 2007-2009 RECESSION—OR WHETHER THEY WERE REALLY CAUSED BY ELECTRONIC DIVERSION

As the Commission held in Docket Nos. R2010-4 and R2010-4R, the "due to" requirement of 39 U.S.C. § 3622(d) limits the Postal Service's recovery to losses that (1) must be recouped to continue providing mail service, and (2) were caused by the "extraordinary" or "exceptional" circumstances identified by the USPS, rather than by longer-run secular trends such as electronic diversion. "Opponents of the Request emphasize that the diversion of mail volume to electronic alternatives is a long-term

trend that does not qualify as an 'extraordinary or exceptional circumstance.' Both the Postal Service and the Commission agree. Declines in volume that arise from the normal life cycle of a product, or set of products, would not come within the plain meaning of those terms." Order No. 547 at 51 & n. 3; *id*. at 62 n. 50 (citing USPS Reply Comments at 17) ("The Postal Service is not claiming that either the volume loss attributable to electronic diversion or any statutory provision, including its obligation to prefund the RHBF, qualifies as an extraordinary or exceptional circumstance.").

Accordingly, the USPS bears the burden of proving that the added contribution from the above-CPI rate increases that the USPS seeks in Docket No. R2013-11 does not exceed the subset of losses caused by the 2007-2009 recession. Order No. 864 at 48 & 51. The "quantification offered by the Postal Service to support an exigent request must be justified through supportable methods commensurate with the amount of the proposed adjustment. Vague generalizations and unsupported conclusory statements are not sufficient." Order No. 864 at 49; *accord*, *id*. at 42-52; *accord*, Order No. 547 at 2-4; Order No. 1059 at 6.

The Postal Service has tried in its September 26 request to satisfy the causation requirement with a time-series analysis sponsored by USPS witness Thress. In his analysis, Mr. Thress regresses quarterly mail volumes against a variety of purported causal variables. Relying on this analysis, he asserts that the Postal Service's FY 2012 volume was more than 25 percent below what the volume would have been but for the 2007-2009 recession, and that essentially *100 percent* of the difference in volume between 2007 and 2012 was caused by the 2007-2009 recession. Another Postal

Service declarant, Stephen J. Nickerson, translates the estimated loss of volume into $6.65 billion in lost contribution in Fiscal Year 2012.

Preliminary analysis of Mr. Thress's Further Statement and library references indicates that he accomplished this result by arbitrarily interpreting important "trend" and "intervention" variables in his model as recession-related. The effect was to attribute the entire impact of these variables to the recession, and none to the long-term diversion trend.

Mr. Thress's assumptions and conclusions are counterintuitive in several obvious respects. First, his attribution of virtually the entire change in volume between 2007 and 2012 to the recession, and none to a long-run trend of electronic diversion, is at odds with the consensus of informed observers that the main driver of the decline in mail volume between 2007 and 2012 was not the 2007-2009 recession, but the long-term trend of electronic diversion. Second, the volume losses that he attributes to the recession dwarf the percentage changes in the standard macroeconomic variables (such as the GDP and employment) for the same period. Third, the time path of Mr. Thress's estimate of the impact of the recession is also anomalous. Recessions are cyclical events. During a recession, the macroeconomic measures decline and bottom out. After the recession, these measures rebound. The annual volume and contribution losses attributed by Mr. Thress to the recession, however, grow deeper every succeeding year *even as the economy recovers*.

The first group of questions that this motion asks the Commission to propound concern these issues:

1. Please produce all data, analyses, studies, reports, compilations of data and similar information on which the Postal Service relies on to support the proposition that the 2007-2009 recession caused electronic diversion to accelerate.

2. By how much did each of the raw macro-economic variables used in your demand equations (population, employment, retail sales, investment and foreign trade) change between FY 2007 and FY 2012?

3. This question refers to pages 6-8 of Mr. Thress's Further Statement filed September 26, 2013, including the "Macro-Economy & Recession-Induced Factors" column of Table Two of the statement:

a. Please confirm that the Postal Service contends that the effect of the 2007-2009 recession on mail volume has become more severe each succeeding year since FY 2007. That is, the effect of the 2007-2009 recession on FY 2012 volumes was greater than on FY 2011 volumes; the effect on FY 2011 volumes was greater than on FY 2010 volumes; the effect on FY 2010 volumes was greater than on FY 2009 volumes; and the effect on FY 2009 volumes was greater than on FY 2008 volumes. If not confirmed, please explain fully.

b. Please identify every previous recession (if any) in which the resulting losses in mail volume and contribution grew deeper each succeeding year even as the economy recovered. Produce all data, studies and analyses that support your response.

c. Does the Postal Service contend that the year-after-year increase in the negative impact of the recession on mail volume will continue in years after FY 2012? If so, when does the Postal Service expect the effect of the 2007-2009 recession to stop? Please produce all data and analyses that you contend support your response to this part.

4. This question refers to Library Reference USPS-R2010-4R-10, Exigent Impact.xls, "Volume" tab, columns D though G, V, W, and AA, and page 7 of Mr. Thress's September 26 Further Statement, which states:

> That is to say, it is my estimate that, if macro-economic conditions had not deteriorated between FY 2007 and FY 2012, and the relationship between mail volume and macro-economic and other factors had remained the same as before the Great Recession, total Market-Dominant mail volume would have been 53.5 billion pieces higher in FY 2012 than actual volumes that year, or 209.8 billion pieces of total mail, as compared to actual FY 2007 volume for these categories of mail of 209.4 billion pieces.

a. Please confirm that the volume changes shown in columns D through G of the "Volume" tab of the Excel file quantify the Postal Service's estimate of the changes in mail volume that the Postal Service contends were caused by changing "macro-economic conditions"? If not an unqualified yes, please explain fully.

b. Please confirm that that the volume changes shown in columns V and W of the "Volume" tab of the Excel file quantify the Postal Service's estimate of the changes in mail volume that the Postal Service contends resulted from changes in "the relationship between volume and macro-economic and other factors" that occurred during the 2007-2009 recession? If not an unqualified yes, please explain fully.

c. Please produce all projections of the Postal Service's mail volume, created between January 1, 2005, and December 31, 2007, that project a decline in mail volume beginning on or after January 1, 2007.

5. One of the themes of Mr. Thress's September 26 Further Statement is that the macro-economic conditions deteriorated between FY 2007 and FY 2012. Please confirm that the cyclical component of the macro-economic variables used in his demand equations began improving in the 2009-2010 period. Please explain fully any failure to confirm without qualification, and provide all data, studies and analyses on which the Postal Service relies.

6. This question concerns the advances in the communications over the Internet that occurred during 2004-2010, including the launching and widespread adoption of the iPhone, the iPad, Facebook, and Twitter; the increasing market penetration of broadband Internet service; and growing percentage of American adults who used the Internet to purchase goods, pay bills, or engage in other commercial transactions.

a. Please explain how the econometric demand equations sponsored by Mr. Thress in this docket distinguish between (i) the effects of the 2007-2009 recession and (2) technological and social changes cited above. If your response relies on any data or analyses not previously produced in this docket, please produce them.

b. Please describe the characteristics of explanatory variables that will reflect the effects of the 2007-2009 recession and the characteristics of explanatory variables that will reflect the effects of technological innovation and resulting social trends during the 2004-2010 period.

7. This question refers to the discussion on "Measurement of Internet Diversion in Econometric Demand Equations" in pages 14-16 of the "Narrative Explanation of Econometric Demand Equations for Market Dominant Products Filed with Postal Regulatory Commission on January 20, 2012" (filed on July 2, 2012). The cited pages include a description of the following change in methodology for measuring Internet Diversion:

> To better measure the increasing depth of Internet use, the Postal Service's methodology for modeling Internet and other electronic diversion has changed somewhat for the demand equations filed with the Postal Regulatory Commission on January 20, 2012. For the demand equations for domestic mail, diversion is no longer modeled via explicit Internet variables, but, instead, is measured through a series of simple linear time trends that start at various times within the sample periods of which the Postal Service's demand equations are estimated.

a. Please confirm that the demand equations filed in R2013-11 continue with the methodology described in the passage above of using trends in place of explicit Internet variables to measure electronic diversion. If not confirmed, please explain fully.

b. Did the development of the demand equations filed in R2013-11 include the exploration of any explicit Internet variables as candidate explanatory variables? If so, please describe the variables considered, and the statistical tests and reasoning that led to their exclusion from the final demand equations. In addition, please produce all data series generated for any such explicit Internet variables.

c. Were any explicit Internet variables for measuring electronic diversion (i) used for developing demand equations before 2012, but (ii) *not* considered in developing the demand equations filed in R2013-11? If so, please describe any such variables and provide the relevant data series. If the complete data series are not available, please provide whatever version of the data series was used for developing demand equations prior to 2012 and identify the original source for the data.

8. Please confirm that the Postal Service's quantification in Docket No. R2013-11 of the volume impact of the recession effectively assumes that *all* changes in electronic diversion rates that have occurred since Fiscal Year 2007 were caused by the recession? If not confirmed, please explain your response fully, and produce all data and analyses on which you rely.

9. The different linear time trends and intervention variables described in the Technical Appendix II of Mr. Thress's September 26 Further Statement are not provided

as data series in the data file (RCFDATA.xlsx) that is provided as USPS-R2010-4R-9. A review of the relevant program code provided in USPS-R2010-4R-9 suggests that these linear trends and intervention variables are created dynamically during execution of the regression programs. Please produce a file that includes the complete quarterly data series corresponding to all linear time trends and all intervention variables used or created by all demand equations that have been filed for R2013-11.

10. This question refers to Library Reference USPS-R2010-4R-10, Exigent Impact.xls, "Volume," columns D though G, V, W, and AA.

a. Please confirm that the table below accurately disaggregates the 53.5 billion piece FY 2012 "Total Macro" volume effect by product (shown in "Volume").

b. Please confirm that the same table disaggregates the volume changes between those due to the column D through G (macroeconomic) variables and the changes due to the column V through W (intervention decomposition) variables.

c. If you do not confirm without qualification, please provide a corrected table.

Product	FY 2012 "Macro" Volume Effect (Millions)		
	Total	Columns V:W	Columns D:G
First-Class SP Letters	(9,169)	(6,996)	(2,173)
First-Class SP Cards	(498)	(379)	(119)
First-Class SP Flats	(661)	(499)	(162)
First-Class WS Letters	(11,312)	(9,885)	(1,427)
First-Class WS Cards	(772)	(676)	(96)
First-Class WS Flats	(179)	(156)	(23)
First-Class International Letters, Cards, & Flats	(17)	0	(17)
Standard Regular Letters	(19,014)	(14,153)	(4,862)
Standard Regular Flats	(3,332)	(2,367)	(965)
Standard Regular Other	(62)	(43)	(19)
Standard ECR Basic	(1,688)	0	(1,688)
Standard ECR High-Density / Saturation Letters	(708)	0	(708)
Standard ECR High-Density / Saturation Non-Letters	(1,950)	0	(1,950)
Standard Nonprofit Letters	(1,875)	(1,627)	(248)
Standard Nonprofit Flats	(260)	(223)	(37)
Standard Nonprofit Other	(6)	(5)	(1)
Standard NP ECR Basic	(109)	0	(109)
Standard NP ECR High-Density / Saturation Letters	(61)	0	(61)
Standard NP ECR High-Density / Saturation Non-Lette	(56)	0	(56)
Periodicals Mail	(1,623)	(768)	(856)
BPM Flats	(86)	(85)	(1)
BPM Parcels	(93)	(92)	(1)
Media & Library Rate Mail	(14)	(13)	(2)
Total	**(53,546)**	**(37,965)**	**(15,580)**

B. INTERPRETATION OF OTHER TREND VARIABLES AS RECESSION-RELATED.

Our preliminary analysis also indicates that Mr. Thress's time series analysis suffers from misattribution of other explanatory variables to the recession. Table Two on page 8 of Mr. Thress's September 26 Further Statement, as well as his supporting workpapers, indicate that he also attributed to the recession significant losses associated with trend variables *other than* electronic diversion. The next three questions deal with these issues.

11. This question refers to Table Two on page 8 of Mr. Thress's September 26 Further Statement.

a. Please explain why the trend component of any macro-economic variable would be related to the 2007-2009 recession.

b. Please explain why the volume effects derived from the trend component of macro-economic variables should be classified as recession-related, as you have done for First Class Single-Piece Letters, Cards, and Flats; and for Standard Nonprofit Mail.

c. Please explain why the volume effects derived from total macro-economic variables, which combine both trend and cyclical components, should be classified as related to the recession, as Mr. Thress has done for Standard Regular Mail and for Standard ECR Mail.

d. Please identify all data, studies and analyses on which your responses to parts a through c rely, and produce any items that have not already been produced in this docket.

12. This question refers to page II-17 of Technical Appendix II of Mr. Thress's September 26 Further Statement.

a. Please explain fully how the Standard Mail Nonprofit "Negative Trend starting in 2011Q2"—a trend variable starting nearly two years after the recession—is recession-related.

b. Please identify and produce all data, studies and analyses on which your response relies.

13. This question refers to Library Reference USPS-R2010-4R-10, Exigent Impact.xls, "Volume" tab, cells D5-D15.

a. Please confirm that the impact of the employment trend variable on First-Class Mail single-piece letter mail volume is negative for every year from FY 2002 to FY 2012, including years before the onset of the 2007-2009 recession. If not confirmed, please explain your response fully.

b. Please explain why the 2008 through 2012 losses in volume attributed to the employment trend variable should be treated as extraordinary or exceptional under 39 U.S.C. § 3622(d)(1)(E) when this variable had a negative effect on volume well before the onset of the 2007-2009 recession. Please produce all data, studies and analyses on which you rely.

C. DISREGARD FOR POSITIVE MACROECONOMIC TRENDS

Mr. Thress's model appears to include the effects of macroeconomic trends when they were negative, but ignore them when they were positive. This one-sided approach appears in the formulae used to calculate the values in the "Total Macro" column (column AA) of the "Volume" worksheet of the same "ExigentImpact.xls" file. The following question concerns this issue:

14. This question refers to Library Reference USPS-R2010-4R-10, Exigent Impact.xls, "Volume" tab, columns D though G and AA and particularly to cells D53 through G53 and AA53.

a. Please confirm that Mr. Thress's estimate of the effect of the recession on mail volumes excludes the positive effect of the economic variables in columns D through G in years when these variables have a combined net positive effect on volume (i.e., during the post-recession period).

b. If you do not confirm without qualification, please explain fully the meaning of the SUM(MIN(SUM(D53:G53,0))) expression in the formula in cell AA53.

c. If confirmed, please explain fully why excluding the positive effects of the economic variables on mail volume in the post-recession period is appropriate. Produce all data, analyses and studies on which you rely.

D. OTHER ISSUES WITH EXPLANATORY VARIABLES

The validity and explanatory power of a time-series analysis depends on the soundness of the explanatory variables included in the econometric demand equations. Proper selection of the trend and cyclical variables is crucial. In this regard, it is important to know what alternative variables were considered, what statistical tests were performed on the variables that were adopted and the alternative variables that were considered but rejected, and what were the results of those tests.

15. Please describe the process used for selecting explanatory variables to include in the econometric demand equations related to macro-economic factors, intervention variables, and linear trends. Describe the general sequence of steps, and identify the statistical tests used and the judgments made.

16. This question refers to (i) Technical Appendix II of Mr. Thress's Further Statement filed on September 25, 2013, and (ii) the Narrative Explanation of Econometric Demand Equations for Market Dominant Products Filed With Postal Regulatory Commission on January 22, 2013 (filed July 1, 2013). Several explanatory variables used in the more recent filing differ from the explanatory variables used in the earlier filing. Please describe the process used for selecting the explanatory variables identified in the subparts of this question. If statistical tests were used in making the choice, please produce the results of the tests.

a. For First-Class Single-Piece Letters, Cards, and Flats, please explain why the econometric demand equations filed on January 22, 2013, use total Employment as a macro-economic explanatory variable, rather than the trend component of Employment (as in Technical Appendix II. (Narrative Explanation at 26 and 29)

b. For First-Class Single-Piece Letters, Cards, and Flats, please explain why the econometric demand equations filed on January 22, 2013, include a linear trend starting at 2004Q2 instead of the variable a linear trend starting at 2002Q4, as in Technical Appendix II. (Narrative Explanation at 27 and 29)

c. For First-Class Workshared Letters, Cards, and Flats, please explain why the econometric demand equations filed on January 22, 2013, include linear trends starting at 2002Q2 and 2008Q3, rather than 2002Q3, 2004Q1, and 2008Q1 as in Technical Appendix II. (Narrative Explanation at 34)

d. For Standard Regular Mail, please explain why the econometric demand equations filed on January 22, 2013, include linear trends starting in 2006Q1 and 2012Q3, rather than a single linear trend starting in 2007Q1 as in Technical Appendix II. (Narrative Explanation at 43)

e. For Standard ECR Mail, please explain why the econometric demand equations filed on January 22, 2013, include the trend and cyclical components of investment as macro-economic variables, rather than the total investment, as in Technical Appendix II. (Narrative Explanation at 46)

f. For Standard Nonprofit Mail, please explain why the econometric demand equations filed on January 22, 2013, include the trend and cyclical components of Investment as macro-economic explanatory variables, rather than just the trend component of Investment as in Technical Appendix II. (Narrative Explanation at 49)

17. In the Narrative Explanation of Econometric Demand Equations for Market Dominant Products Filed With Postal Regulatory Commission on January 22, 2013 (filed July 1, 2013), Mr. Thress explains the rationale for decomposing the macroeconomic variables in the demand equations:

> "In some cases, the demand for a product may be affected differently by short-run fluctuations in the macro-economy (e.g., recessions) and longer-run macro-economic factors (e.g. long-run trends). The demand equations filed with the Commission on January 22, 2013, allow for differences between long-run and short-run macroeconomic impacts on the demand for mail volume. This is done through the use of filtered macroeconomic data where appropriate. Most economic data present a combination of growth and fluctuations. The purpose of a filter is to distinguish the effect of these two features of the economy on mail volume. Distinctions of this nature are particularly important around economic turning points (such as the U.S. economy is currently experiencing)." (Narrative Explanation at 7-8)

a. Please provide revised versions of the demand equation output in Library Reference USPS-R2010-4R-9 and the Excel calculations in Library Reference USPS-R2010-4R-10 for Standard Regular Mail and Standard ECR Mail that includes separate components showing the separate effects of the trend (long-run) and cyclical (short-run) for the Investment macroeconomic variable.

b. The econometric demand equations discussed in the Further Statement of Mr. Thress include only the trend component of the macroeconomic variable for First-Class Single Piece Letters, Cards, and Flats, and for Standard Nonprofit Mail (Technical Appendix at II-2 and II-14). This macroeconomic variable is Employment (for First-Class Single Piece) and Investment (for Standard Nonprofit Mail). In each case, please confirm that the cyclical component of the respective macroeconomic variable was excluded because its impact on mail volume was not found to be statistically significant. If not confirmed, please explain fully.

CONCLUSION

Wherefore, the undersigned parties respectfully request that the Presiding Officer issue an Information Request to obtain answers to the questions stated in this motion.

Respectfully submitted,

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